

Message Text

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LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN MONETARY POLICY, EC MONETARY UNION

1. ECONOMICS MINISTRY OFFICIALS TELL THE FINANCIAL ATTACHE THAT THEY NOW SEE DEFINITE SIGNS OF A SLOWDOWN IN THE GERMAN ECONOMY BUT, UNLIKE SOME OF THEIR FINANCE MINISTRY COLLEAGUES (SEE BONN 14886), BELIEVE THAT MONETARY POLICY SHOULD BE KEPT AS TIGHT AS INTERNATIONAL CONSIDERATIONS PERMIT AT LEAST THROUGH THE TURN OF THE YEAR. THEY DO NOT BELIEVE THAT THE SLOWDOWN WILL ACCELERATE INTO A "V" SHAPED RECESSION (AS FRANKFURT PRIVATE BANKERS FEAR, SEE BONN 14789) AND ARE STRENGTHENED IN THEIR BELIEF FOR THE NEED OF CONTINUED VERY TIGHT MONETARY POLICY BY THE FOLLOWING FACTORS: (A) THEIR BELIEF THAT FISCAL POLICY AUTOMATICALLY WILL BECOME SOMEWHAT LESS RESTRICTIVE FOR THE REST OF THE YEAR BECAUSE OF SOME UNBLOCKING OF EXPENDITURES NOW THAT BUDGETS HAVE BEEN ENACTED, CHRISTMAS BONUSES, ETC., (B) THE NEED TO KEEP A RESTRICTIVE STANCE THROUGH THE UPCOMING PERIOD OF WAGE NEGOTIATIONS, AND (C) THE FEELING THAT TO BREAK THE PREVALENT CLIMATE OF INFLATIONARY EXPECTATION A MORE DEFINITE SLOWDOWN IS NEEDED THIS

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TIME THAN IN OTHER CYCLES.

2. CONCERNING EC MONETARY UNION DEVELOPMENTS, BUNDESBANK, FINANCE AND ECONOMIC MINISTRY OFFICIALS ARE UNITED IN NOT SEEING THE POSSIBILITY FOR MUCH REAL PROGRESS OVER THE NEAR TO MEDIUM TERM. THEY THEREFORE HOPE THAT COSTLY AND IN THEIR VIEW NOT VERY SENSIBLE STEPS OF MAKE BELIEVE PROGRESS CAN BE AVOIDED FOR THE TIME BEING DESPITE POLITICAL PRESSURES FOR THEM. THEY HOPE AND BELIEVE THAT SIGNIFICANT STEPS TOWARD RESERVE POOLING CAN BE AVOIDED BY DECEMBER 31 SINCE THESE WOULD IN EFFECT ONLY AMOUNT TO AN UNNECESSARY CREATION OF ADDITIONAL INTERNATIONAL LIQUIDITY OR CREDIT. THEY ARE ENCOURAGED IN THIS REGARD BY THE TECHNICAL INADEQUACY OF THE COMMISSION PROPOSALS AND THE APPARENT FRENCH RELUCTANCE. THEY ARE NOW REASSURED THAT NEITHER THE UK NOR ITALY WILL WANT TO JOIN THE SNAKE IN THE NEAR FUTURE. THEY BELIEVE THAT A REGIONAL FUND WILL BE ESTABLISHED ON DECEMBER 31, BUT THAT IT WILL BE KEPT TO MODEST PROPORTIONS FOR THE TIME BEING. THE GERMAN CABINET ALREADY HAS APPROVED GERMAN PARTICIPATION IN A FUND LIMITED DURING ITS FIRST YEAR TO 50 MILLION UNITS OF ACCOUNT (FOR THE TOTAL FUND, NOT THE GERMAN SHARE). GERMAN OFFICIALS BELIEVE THAT THIS FIGURE WILL HAVE TO BE UPPED DURING THE NEGOTIATIONS, BUT CAN BE KEPT WITHIN THE 200-300 MILLION RANGE.

HILLENBRAND

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